

Uruguay

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Uruguay	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering assessment Not on EU White list equivalent jurisdictions Offshore Finance Centre
Medium Risk Areas:	Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: soybeans, rice, wheat; beef, dairy products; fish; lumber, cellulose</p> <p>Industries: food processing, electrical machinery, transportation equipment, petroleum products, textiles, chemicals, beverages</p> <p>Exports - commodities: beef, soybeans, cellulose, rice, wheat, wood, dairy products; wool</p> <p>Exports - partners: Brazil 18.5%, China 17.9%, Argentina 6.8%, Germany 4.3% (2012)</p> <p>Imports - commodities: refined oil, crude oil, passenger and other transportation vehicles, vehicle parts, cellular phones</p> <p>Imports - partners: China 16.1%, Argentina 15.8%, Brazil 14.6%, US 8.9%, Paraguay 7.6% (2012)</p>	
<p>Investment Restrictions: Law 16,906 (adopted in 1998) declares promotion and protection of investments made by national and foreign investors to be in the nation's interest. The law states that: (1) foreign</p>	

and national investments are treated alike; (2) investments are allowed without prior authorization or registration; (3) the government will not prevent the establishment of investment in the country; and (4) investors may freely transfer abroad their capital and profits from the investment. Decree 002/12 (adopted in January 2012 superseding Decree 455/007 from 2007) regulates Law 16,906 and provides significant incentives to investors that have contributed to a strong increase in foreign and local investment.

Aside from a few limited sectors involving national security and limited legal government monopolies in which foreign investment is not permitted there is neither *de jure* nor *de facto* discrimination toward investment by source or origin, and national and foreign investors are treated equally. In general, the GOU does not require specific authorization for firms to set up operations, import and export, make deposits and banking transactions in any particular currency, or obtain credit. Screening mechanisms do not apply to foreign or national investments, and special government authorization is not needed for access to capital markets or to foreign exchange.

Private ownership does not restrict a firm or business from engaging in any form of remunerative activity, except in two areas: national security interest and legal government monopolies (see Competition from State Owned Enterprises). One hundred percent foreign ownership is permitted, except where restricted for national security purposes.

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Section 1 - Background

Montevideo, founded by the Spanish in 1726 as a military stronghold, soon took advantage of its natural harbor to become an important commercial center. Claimed by Argentina but annexed by Brazil in 1821, Uruguay declared its independence four years later and secured its freedom in 1828 after a three-year struggle. The administrations of President Jose BATLLE in the early 20th century launched widespread political, social, and economic reforms that established a statist tradition. A violent Marxist urban guerrilla movement named the Tupamaros, launched in the late 1960s, led Uruguay's president to cede control of the government to the military in 1973. By yearend, the rebels had been crushed, but the military continued to expand its hold over the government. Civilian rule was not restored until 1985. In 2004, the left-of-center Frente Amplio Coalition won national elections that effectively ended 170 years of political control previously held by the Colorado and Blanco parties. Uruguay's political and labor conditions are among the freest on the continent.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Uruguay is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Uruguay was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Uruguay was deemed Compliant for 13 and Largely Compliant for 22 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 1 of the 6 Core Recommendations.

US Department of State Money Laundering assessment (INCSR)

Uruguay was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Although the Government of Uruguay continued to take affirmative steps in 2015 to counter money laundering and terrorism financing activities and made progress in enforcement, Uruguay remains vulnerable to these threats. Uruguay has a highly dollarized economy, with the U.S. dollar often used as a business currency; about 80 percent of deposits and 55 percent of credits are denominated in U.S. dollars. Officials from the Uruguayan police and judiciary assess that Colombian, Mexican, and Russian criminal organizations are operating in Uruguay. There is continued concern about transnational organized crime originating in Brazil. Since 2013, there have been at least five high-profile money laundering cases, including one related to FIFA and several linked to alleged laundering of funds from Peru, Argentina, and Spain.

Laundered criminal proceeds derive primarily from foreign activities related to drug trafficking organizations. Drug dealers also participate in other illicit activities like car theft and human trafficking, and violent crime is increasing significantly. Publicized money laundering cases are primarily related to narcotics and/or involve the real estate sector. Public corruption does not seem to be a significant factor behind money laundering or terrorist financing. Uruguay has porous borders with Argentina and Brazil and, despite its small

size, price differentials between Uruguay and neighboring countries support a market for smuggled goods. Bulk cash smuggling and trade-based money laundering occur.

Given the longstanding free mobility of capital in Uruguay, money is likely laundered via the formal financial sector (onshore and offshore). Offshore banks are subject to the same laws, regulations, and controls as local banks, with the government requiring licenses through a formal process that includes a background investigation of the principals. The three offshore banks operating in Uruguay cannot initiate new operations since they are in the process of being liquidated. Offshore trusts are not allowed. There are twenty representatives of offshore financial entities. Bearer shares may not be used in banks and institutions under the authority of the Central Bank of Uruguay, and any share transactions must be authorized by the central bank. Uruguay's offshore financial services cater primarily to Latin American clients, especially to middle class Argentinians.

There are 12 free trade zones (FTZs) located throughout the country. Three FTZs accommodate a variety of tenants offering a wide range of services, including financial services; two were created exclusively for the development of the pulp industry; one is dedicated to science and technology; and the rest are devoted mainly to warehousing. Some of the warehouse-style FTZs and Montevideo's free port and airports are used as transit points for containers of counterfeit goods (generally manufactured in China) or raw materials bound for Brazil and Paraguay.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: YES

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: NO ***civilly:*** YES

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks, currency exchange houses, stockbrokers, pension funds, insurance companies, casinos, art dealers, real estate and fiduciary companies, lawyers, accountants, and other persons who carry out financial transactions or manage commercial companies on behalf of third parties

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 290: January – October 2015

Number of CTRs received and time frame: 7,607,016: January – October 2015

STR covered entities: Banks; financial services firms (which can offer credits and diverse financial services but not deposits); financial houses (which can loan to residents but only receive deposits from non-residents); offshore financial institutions; financial cooperatives; private loan consortia; credit providers; exchange houses; representatives of offshore

financial firms; wire companies; companies providing administration, accounting and data processing services; pension funds; insurance companies; stock exchanges; stock brokers; investment advisors; issuers of initial public offers; investment fund managers; financial trusts; professional trust managers; private companies with government's participation; casinos; real estate brokers, intermediaries, and developers; notaries; auctioneers; dealers in antiques, fine art, and precious metals or stones; FTZ operators and direct users; business dealers; and other persons or companies who carry out financial transactions or administer corporations on behalf of third parties

money laundering criminal Prosecutions/convictions:

Prosecutions: 51: January – October 2015

Convictions: 7: January – July 2015

Records exchange mechanism:

With U.S.: MLAT: YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Uruguay is a member of the Financial Action Task Force of Latin America (GAFILAT), a FATF-style regional body.

Enforcement and implementation issues and comments:

Significant AML/CFT developments in 2015 include the inclusion of three articles in the quinquennial budget bill that task the Anti-Money Laundering Secretariat (AMLS) with the supervision of designated non-financial businesses and professions (DNFBPs). Law 19,355, enacted in December 2015, substantially enhances the supervisory and enforcement powers of the AMLS and should have the effect of increasing STR reporting by these entities, which have traditionally submitted few suspicious transaction reports (STRs). Staffing will almost triple to enable the AMLS to implement effective supervision over 20,000 new obligated entities.

Several programs continued in 2015 with the assistance of the international donors. One program seeks to upgrade Uruguay's money laundering risk assessment and its compliance with international standards. Other programs seek to enhance the effectiveness of Uruguay's AML investigations, improve the country's technological platform and statistical system, and provide better tools to the inter-institutional working groups. One donor is assisting the central bank to create a strategic analysis division within UIAF, the financial intelligence unit, and is also helping the UIAF to strengthen its capabilities to assess the risk of individual financial institutions. A risk-based matrix that was tested in ten institutions in 2015 will be implemented throughout the entire financial system in 2016. Following a 2014 decree, the UIAF started supervising providers of securities transportation and safety deposit boxes in 2015.

In 2015, Uruguay continued its strategy of increased transparency by eliminating approximately 85,000 bearer share corporations that failed to register the owners of their shares at the UIAF (about 30,000 corporations registered). Uruguay also began adhering to the automatic exchange of tax information with some jurisdictions and announced that, starting in 2017, it will begin an automatic exchange of tax information with countries with which it has bilateral agreements. However, foreign authorities seeking information on their

residents' undeclared bank accounts cannot easily discover evidence of malfeasance; they may only seek "confirmation" from Uruguay after a specific taxpayer and a related bank account have already been identified. Implementation of the new policy will require a major relaxation of Uruguay's longstanding bank secrecy policy.

In 2014, the Uruguayan Customs Authority created a working group on AML, and in 2015 Uruguay passed legislation that authorizes customs officials to impose significantly tighter controls over the FTZs. A financial inclusion law passed in May 2014 provides for mandatory payment of wages, pensions, and specified transactions by electronic means, thereby diminishing money laundering risks by increasing economic formalization. Following the new financial inclusion regulations, the UIAF started receiving daily reports for simplified savings accounts in 2015.

The government worked in 2015 to develop an integrated strategy against terrorism, which will be submitted to the parliament for approval in 2016. In early December 2015, the government will submit a bill to Parliament that would strengthen its anti-terrorism stance and clarify several points that were subject to interpretation. Also in 2015, an inter-ministerial working group continued analyzing the inclusion of tax evasion as a predicate crime for money laundering.

Uruguay has made progress in the collection and dissemination of statistics related to prosecutions, convictions, and the amount of seized assets related exclusively to AML/CFT cases. Money laundering prosecutions can take several years, and most end with a conviction. Uruguay is considering amending its legislation to allow for full non-conviction based forfeiture. At present, assets may be forfeited without the conviction of a person only in very narrow circumstances, including when the owner of the assets is missing or no owner can be found. Besides the convictions and prosecutions, in 2015 the UIAF froze assets on six occasions for a total of \$614,000, fined a real estate agent and a notary, and imposed sanctions on several financial institutions, one of which was closed.

Uruguay should amend its legislation to provide for criminal liability for legal persons. It also should continue improving its statistics related to money laundering, continue working with covered non-financial entities, and improve the management of seized assets and funds.

Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Uruguay conforms with regard to the government legislation required to combat money laundering and the terrorism of financing.

EU White list of Equivalent Jurisdictions

Uruguay is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Uruguay is considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016:

Uruguay is not a major narcotics producing country and has low levels of drug-related corruption. However, foreign drug traffickers take advantage of its porous borders with Argentina and Brazil, as well as Montevideo's busy international container port, to use Uruguay as a base for logistics and transit operations. Andean-produced cocaine is the primary drug trafficked through Uruguay. Local consumption of the highly addictive and inexpensive cocaine base product, known as "pasta base," remains a serious problem. The Uruguayan government passed legislation in December 2013 that regulates the legal sale and distribution of marijuana. The law allows each household to grow up to six marijuana plants and allows registered individuals to buy up to 40 grams per person per month at pharmacies. However, implementation of the legislation continued to lag through 2015. In October, the government announced it will license two companies to grow up to two metric tons of cannabis per year on state-owned land. These companies announced plans to have cannabis ready to sell in mid-2016.

Uruguay's demand reduction strategy focuses on prevention, rehabilitation, and treatment, with particular attention to reducing demand for "pasta base." The National Drug Rehabilitation Center trains health care professionals and sponsors teacher training, public outreach, and other programs. The National Anti-Drug Secretariat trains educators to run an anti-drug program for adolescents, and the interagency treatment and prevention program "Portal Amarillo" assists those with substance use disorders seeking help. With U.S. support, the Organization of American States' Inter-American Drug Abuse Control Commission provides technical support to the government's drug treatment and prevention systems, including training for personnel and support to treatment facilities.

The National Drug Police continued to implement Uruguay's 2011-2015 National Plan against Drug Trafficking and Money Laundering, which focuses on coordinating interagency efforts to combat drug-related illicit activities. In 2015, the Government of Uruguay seized 137 kilograms (kg) of cocaine, 74 kg of "pasta base," and 2.65 metric tons of marijuana. U.S. assistance included operational support and training to different Uruguayan agencies on narcotics investigations. The United States and Uruguay are parties to a bilateral extradition treaty entered into force in 1984, a mutual legal assistance treaty entered into force in 1994, and a letter of agreement through which the United States is able to support counternarcotics and law enforcement programs in Uruguay.

US State Dept Trafficking in Persons Report 2013 (introduction):

Uruguay is classified a Tier 2 (watch list) country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Uruguay is a source country for women and children subjected to sex trafficking and, to a lesser extent, a transit and destination country for men, women, and children exploited in

forced labor and sex trafficking. Most victims are Uruguayan women and girls exploited in sex trafficking, including as “bar girls,” within the country, particularly in urban and tourist areas. Lured by fraudulent employment offers, some Uruguayan women are forced into prostitution in Spain, Italy, and Argentina. To a more limited extent, Uruguayan transgender and male youth are found in commercial sexual exploitation within the country. Foreign workers in domestic service, agriculture, and lumber processing are vulnerable to forced labor. For example, during the year more than 70 Turkish men were found working in a lumber processing plant; these men did not speak Spanish and the company employing them had not paid their salaries for three months, provided only funds for food, and did not inform the men of their legal rights within the country. Authorities continued to report that some cases of human trafficking were linked to local and international crime rings that smuggle narcotics and migrants. Uruguayan officials have identified citizens of other countries, including China and the Dominican Republic, transiting through Uruguay en route to Argentina as potential victims of sex and labor trafficking.

The Government of Uruguay does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government investigated several potential sex and labor trafficking cases and launched two public awareness campaigns with foreign government funding. Despite these efforts, the government has not shown evidence of increasing overall efforts to address human trafficking compared to the previous year; therefore, Uruguay is placed on Tier 2 Watch List for the second consecutive year. The lack of anti-trafficking data made it difficult to evaluate law enforcement efforts. Authorities convicted no trafficking offenders during the year. While authorities identified and assisted 40 potential victims of cross-border trafficking, it was unclear how many internal trafficking victims the government identified and assisted during the year, as anti-trafficking efforts were focused on transnational trafficking. The government provided limited services to victims of human trafficking outside the capital and to labor trafficking victims.

Latest US State Dept Terrorism Report

Uruguay was a willing partner of the United States in counterterrorism efforts and improved its ability to fight international crime through legislation, better protection of its borders, and military training. The Government of Uruguay focused its efforts to promote global security through collective action within multinational organizations such as the U.N. and Organization of American States (OAS). Uruguay is a member of the MERCOSUR Permanent Working Group on terrorism, together with Argentina, Brazil, Chile, Paraguay, and Bolivia. The group facilitates cooperation and information sharing. Uruguay has also been active in a range of international counterterrorism efforts, particularly in the Rio Group and the OAS.

A new money laundering law passed in 2009 further defined money laundering, including as it relates to terrorist financing.

Uruguay’s level of cooperation and intelligence sharing on counterterrorism-related issues improved. The political leadership in the Ministries of Defense and Interior increasingly saw terrorism as a significant issue for Uruguay, and working level officers in law enforcement and

security services recognized the importance of conducting pro-active investigations and intelligence sharing with the U.S. government and other Latin American countries.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	71
World Governance Indicator – Control of Corruption	89

Corruption and Government Transparency - Report by US State Department

Uruguay signed and ratified the UN's Anticorruption Convention. It is not a member of the, OECD and therefore not party to the OECD's Convention on Combating Bribery.

Uruguay has laws to prevent bribery and other corrupt practices. A law against corruption in the public sector was approved in 1998, and acceptance of a bribe is a felony under Uruguay's penal code. Some high level Uruguayan officials, from the Executive, Parliament and the Judiciary, have been prosecuted for corruption in recent years.

Overall, U.S. firms have not identified corruption as an obstacle to investment.

Uruguay was ranked as the least corrupt country in the Latin America and the Caribbean region in the 2013 edition of Transparency International's Corruption Perception Index. Uruguay shared the 19th position globally (among 177 countries) with the United States.

Laws 17,835 and 18,494 (passed in 2004 and 2009) and Decree 226/10 establish a strong framework against money laundering and terrorism finance and include corruption as a preceding crime. Money laundering is penalized with sentences of up to ten years (and also applies to Uruguayans living abroad).

The Transparency and Public Ethics Committee (<http://www.jutep.gub.uy/>) is responsible for combating corruption. There is no major local "watchdog" organization.

Section 3 - Economy

Uruguay has a free market economy characterized by an export-oriented agricultural sector, a well-educated work force, and high levels of social spending. Following financial difficulties in the late 1990s and early 2000s, economic growth for Uruguay averaged 8% annually during the period 2004-08. The 2008-09 global financial crisis put a brake on Uruguay's vigorous growth, which decelerated to 2.6% in 2009. Nevertheless, the country managed to avoid a recession and keep positive growth rates, mainly through higher public expenditure and investment, and GDP growth reached 8.9% in 2010 but slowed in 2012-13, the result of a renewed slowdown in the global economy and in Uruguay's main trade partners and Common Market of the South (Mercosur) counterparts, Argentina and Brazil. Uruguay has sought to expand trade within Mercosur and with non-Mercosur members. Uruguay's total merchandise trade with Mercosur since 2006 has increased by nearly 70% to more than \$5 billion while its total trade with the world has almost doubled to roughly \$23 billion in 2013.

Agriculture - products:

soybeans, rice, wheat; beef, dairy products; fish; lumber, cellulose

Industries:

food processing, electrical machinery, transportation equipment, petroleum products, textiles, chemicals, beverages

Exports - commodities:

beef, soybeans, cellulose, rice, wheat, wood, dairy products; wool

Exports - partners:

Brazil 18.5%, China 17.9%, Argentina 6.8%, Germany 4.3% (2012)

Imports - commodities:

refined oil, crude oil, passenger and other transportation vehicles, vehicle parts, cellular phones

Imports - partners:

China 16.1%, Argentina 15.8%, Brazil 14.6%, US 8.9%, Paraguay 7.6% (2012)

Banking

The financial sector in Uruguay is open to foreign participation and is sustained by a transparent supervisory and regulatory system. A severe banking crisis in 2002 put the entire system under risk but proper management allowed the system to get back on track. The crisis was overcome with timely U.S. and IMF support. Most private banks, including U.S. – owned

ones at the time, successfully weathered the 2002-banking crisis and honored all deposits in timely manner.

There has been a consolidation of private commercial banks. In August 2006, Brazilian bank Itau bought U.S. Bank Boston. In January 2009 Spanish Santander bought Dutch ABN, and in January 2010 Spanish BBVA bought French Credit Agricole's operations in Uruguay.

Uruguay's financial sector currently consists of one government owned commercial bank (Banco de la Republica) and one government owned mortgage bank (BHU). Government-owned banks have traditionally held a major share of the banking market, with Banco de la Republica accounting for about 44% of total deposits and 41% of total credits. There are also 12 foreign-owned banks, 4 offshore banks, 10 other financial institutions, 13 credit administrators, 84 exchange houses. The four offshore banks are subject to the same laws, regulations, and controls as local banks, with the GOU requiring them to be licensed through a formal process that includes a background investigation. Offshore financial institutions operate with limited functions as they cannot operate with residents. International financial firms also operate in Uruguay within a free trade zone.

Private banks supply Uruguay's private sector with short-term, dollar-denominated credit and receive mostly dollar-denominated deposits (about 75% of the private sector's deposits in the commercial banking system are dollar-denominated.)

Uruguay had traditionally been a common destination for Argentine depositors, and before the 2002-banking crisis, Argentines held over 40% of total deposits. However, many Argentine depositors withdrew their funds in 2002 and as of December 2010 they accounted for 17% of total deposits, limiting Uruguay's exposure to its neighbor. Credits started to recover from the crisis in mid-2005, well after deposits which had started in mid-2002. Deposits have surpassed pre-crisis levels but credits remain substantially below.

The Central Bank formulates monetary and exchange policies in coordination with the Executive Branch. Since the 2002 crisis, the Government of Uruguay has implemented financial sector reforms enforcing greater financial controls, which empowered the supervisory role of the Central Bank. According to the IMF, Uruguay's recovery was fostered by strong macroeconomic policies and structural reforms generating remarkable economic and financial results. The banking sector has not been hit by the global 2008- 2009 global financial crisis.

Stock Exchange

There are two stock exchanges. Bolsa Electronica de Valores de Uruguay is an electronic exchange, which encompasses over 90% of transactions, concentrates on the money market and public securities. The other, Bolsa de Valores de Montevideo, is a traditional exchange focuses on sovereign bonds. Only 12 firms are registered in the traditional stock exchange. Trading in shares and commercial paper is virtually nil, severely limiting market liquidity. There is no effective regulatory system to encourage and facilitate portfolio investment.

Executive Summary

The Government of Uruguay recognizes the important role foreign investment plays in economic development and maintains a favorable investment climate.

Uruguay has a stable legal system in which foreign and national investments are treated alike, most investments are allowed without prior authorization and investors may freely transfer abroad their capital and profits from their investment. There are also significant tax incentives for investors which, together with strong economic growth, have contributed to a strong increase in foreign and local investment.

Uruguay is a stable democracy. Political risk is low and there have been no recent cases of expropriation. U.S. firms have not identified corruption as a problem for investment. In 2013, Uruguay received the same score as the United States in Transparency International's Corruption Perception Index, and was ranked as the least corrupt country in Latin America and the Caribbean.

With a market of 3.3 million middle-income consumers, Uruguay is a good test market for U.S. products. Its strategic location (in the center of Mercosur's wealthiest and most populated area) and its special import regimes (such as free zones and free ports) also make it a well-situated distribution center for U.S. goods into the region. Several US firms warehouse their products in Uruguay's tax free areas and service their regional clients effectively.

The World Bank's 2013 "Doing Business" Index, which ranks countries according to the ease of doing business, placed Uruguay 89th among 185 countries and 14th within Latin American and the Caribbean.

The 2013-2014 edition of the World Economic Forum's Global Competitiveness Report identified restrictive labor regulations as the most problematic issue for doing business locally. Uruguay got the lowest rating, globally, in the flexibility of wage determination and pay/productivity categories. It also ranked in the lowest decile globally with regard to cooperation between labor and employers, as well as its hiring and firing practices.

Investors can choose between arbitration and the judicial system to settle disputes. Uruguay has bilateral investment treaties with over 30 countries, including the United States. Uruguay and the United States also have agreements on Open Skies, Trade and Investment, and Cooperation in Science and Technology. The United States does not have a double-taxation treaty with Uruguay.

Uruguay has free trade agreements with its Mercosur partners (Argentina, Brazil, Paraguay and Venezuela) and Chile, Bolivia, Colombia, Ecuador, Mexico and Peru.

With the fourth largest stock of foreign investment in 2012, the United States is an important investor in Uruguay. Its average annual investment figures more than tripled from 2002-2006 to 2007-2012. Currently about 130 U.S. firms operate locally and distribute their investments amongst a wide array of sectors – mainly forestry, tourism and hotels, other services, and telecommunications.

1. Openness To, and Restrictions Upon, Foreign Investment

The Government of Uruguay has traditionally recognized the important role that foreign and local investment plays in economic and social development and works to maintain a favorable investment climate.

Uruguay and the United States signed a Bilateral Investment Treaty (BIT) in November 2005, which entered into force on November 1, 2006. Uruguay and the United States also signed an Open Skies Agreement in late 2004 (ratified in May 2006), a Trade and Investment Framework Agreement (TIFA) in January 2007, and a Science and Technology Cooperation Agreement in April 2008. Under the TIFA, both countries signed two additional protocols on business facilitation and on the environment in 2008.

Law 16,906 (passed in 1998) declares promotion and protection of investments made by national and foreign investors to be in the nation's interest. The law states that: (1) foreign and national investments are treated alike; (2) investments are allowed without prior authorization or registration; (3) the government will not prevent the establishment of investment in the country; and (4) investors may freely transfer abroad their capital and profits from the investment. Decree 002/12 (passed in January 2012 superseding Decree 455/007 from 2007) regulates Law 16,906 and provides significant incentives to investors that have contributed to a strong increase in foreign and local investment.

Aside from a few limited sectors involving national security and limited legal government monopolies in which foreign investment is not permitted, there is neither *de jure* nor *de facto* discrimination toward investment by source or origin, with national and foreign investors treated equally. In general, the GOU does not require specific authorization for firms to set up operations, import and export, make deposits and banking transactions in any particular currency, or obtain credit. Screening mechanisms do not apply to foreign or national investments, and special government authorization is not needed for access to capital markets or to foreign exchange.

In tenders for private sector participation in state-owned sectors, foreign investors are treated as nationals and allowed to participate in any stage of the process. Bidders on tenders should be prepared for a lengthy adjudication process. Although U.S. firms have not encountered major obstacles in Uruguay's investment climate, some have been frustrated by the length of time it takes to complete bureaucratic procedures and tenders. In addition, the ease by which losing parties may ask for annulment of bid results and force a rebid can result in significant delays in the process.

Private-Public Partnerships were instated in July 2011 by Law 18,786, which was passed in Parliament by consensus. Implementing regulations were established in January 2012 by Decree 07/12.

http://www.wto.org/english/tratop_e/tpr_e/tp363_e.htm

The World Bank's 2014 "Doing Business" Index, which ranks 189 countries according to the ease of doing business, placed Uruguay 89th globally and 13th within the Latin American and the Caribbean region (33 countries). Uruguay gets high marks in the categories "getting electricity," "starting a business" and "resolving insolvency," but lags in "registering property," "dealing with construction permits," and "paying taxes."

Uruguay held the same standing as the United States in the 2013 edition of Transparency International Corruption Perception Index (19th), and has consistently been ranked as a “moderately free economy” by the Heritage Foundation.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	19 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	38 of 178	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	88 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	52 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	\$13,580	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Uruguay maintains a long tradition of not restricting the purchase of foreign currency or the remittance of profits abroad, even during its severe 2002 banking and financial crisis.

Article 7 of the U.S.-Uruguay BIT provides that both countries "shall permit all transfers relating to investments to be made freely and without delay into and out of its territory." The agreement also establishes that both countries will permit transfers "to be made in a freely usable currency at the market rate of exchange prevailing at the time of the transfer."

Uruguay does not engage in currency manipulation to gain competitive advantage. Since 2002 the peso has floated freely, albeit with intervention from the Central Bank aimed at

reducing the volatility of the price of the dollar. Foreign exchange can be freely obtained at market rates and there is no black market for currency exchange. The U.S. Embassy uses the official rate when purchasing local currency. There are no restrictions on technology transfers.

Uruguay is considered a Jurisdiction of Primary Concern in the US Department of State's International Narcotics Control Strategy Report (INCSRII), which covers money laundering and financial crimes.

3. Expropriation and Compensation

There have been no cases of expropriation of investment –neither from the United States nor from other countries– in the past five years and there is no reason to believe that such actions would take place in the near future.

In the event of expropriation, the Uruguayan Constitution provides for the prompt payment of "fair" compensation.

Article 6 of the U.S.-Uruguay BIT rules out direct and indirect expropriation or nationalization, except under certain very specific circumstances. The article also contains detailed provisions on how to compensate investors, should expropriation take place.

4. Dispute Settlement

The investor may choose between arbitration and the judicial system to settle disputes. Uruguay's legal system is based on a civil law system derived from the Napoleonic Code, and the government does not interfere in the court system. The Judiciary is independent, albeit sometimes slow.

Uruguay became a member of the International Center for the Settlement of Investment Disputes (ICSID) in September 2000 and is also a signatory of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

The U.S.-Uruguay BIT devotes over ten pages to establish detailed and expedited dispute settlement procedures.

In February 2010 tobacco company Philip Morris International sued the Government of Uruguay, arguing that new health measures involving cigarette packaging amounted to unfair treatment of the firm. The case was filed under the Uruguay-Switzerland Bilateral Investment Treaty and, as of April 2014, remains before ICSID. The United States does not support Philip Morris International, its position on this issue or the sales of its product.

5. Performance Requirements and Investment Incentives

Article 8 of the U.S.-Uruguay Bilateral Investment Treaty bans both countries from imposing seven forms of performance requirements to new investments, or tying the granting of existing or new advantages to performance requirements.

Local and foreign investors are treated equally. There are no preferential tax deferrals, grants, or special access to credit for foreign investors. Foreign investors are not required to meet any specific performance requirements. Moreover, foreign investors are not inhibited by discriminatory or excessively onerous visa, residence, or work permit requirements. The

government does not require that nationals own shares or that the share of foreign equity be reduced over time, and does not impose conditions on investment permits.

The investment promotion regime is regulated by Law 16,906 (passed in 1998) and Decree 002/12 (passed in January 2012). Law 16,906 grants automatic tax incentives to several activities including personnel training; research, scientific and technological development; reinvestment of profits; and investments in industrial machinery and equipment. Other benefits provided exclusively to industrial and agricultural firms by Law 16,906 have in practice been superseded by the regulating decree.

Decree 002/12 grants significant tax incentives to investors in a wide array of sectors and activities. Certain activities –such as the purchasing of land, real estate or private vehicles– are not eligible for the benefits. The principal incentive consists of the deduction from corporate income tax of a share of total investment (up to 100%) over a certain period. The amount of the deduction depends on the score the project gets in a matrix of pre-defined criteria. The matrix takes into account the project's: (1) generation of jobs (quantity and quality); (2) contribution to research and development and innovation, or increase in the usage of clean technologies; (3) increase of exports; (4) contribution to geographic decentralization away from the capital Montevideo; and (5) sectoral indicators that vary according to the nature of the investment (e.g. capital market development, hiring of workers from vulnerable groups or contribution to tourism services and infrastructure).

Other incentives include: 1) exoneration from tariffs and taxes (including VAT) on imports of capital goods and materials for civil works that do not compete against local industry; 2) exoneration from the patrimony tax on personal property and civil works; 3) refunding of VAT paid on local purchases of materials and services for civil works; and 4) special tax treatment of fees and salaries paid for research and development.

Local and foreign investors reacted positively to Decree 455/007. The number of investment proposals approved for tax exemptions doubled in 2008 to 310, valued at over US\$1 billion, well above the 58 proposals submitted annually in 2002-2007. Investment proposals kept increasing since then, to a record high of US\$ 3 billion in 2013. It is unknown how many of these proposals materialized into concrete projects.

There are special regimes to promote tourism, communications, call centers, production of electronics and electronic equipment, software exports, biotech, printing activity, naval and aeronautic industries, forestry, production of vehicles or auto parts, and construction of agricultural machinery. The exploration and exploitation of hydrocarbons is also incentivized, as well as the production of biofuels and the generation of renewable energies.

None of the promotion systems described above differentiates between foreign and national investors.

A government decree establishes that government tenders will favor local products or services, provided they are of equal quality and not more than 10 percent more expensive than foreign goods or services. U.S. and other foreign firms are able to participate in government-financed or subsidized research and development programs on a national treatment basis.

6. Right to Private Ownership and Establishment

Private ownership does not restrict a firm or business from engaging in any form of remunerative activity, except in two areas: national security interest and legal government monopolies (see Competition from State Owned Enterprises). One hundred percent foreign ownership is permitted, except where restricted for national security purposes.

A bill that is in its early parliamentary process as of April 2014 would, if approved, ban foreign states' public companies or their sovereign funds (directly or indirectly) from purchasing land locally.

7. Protection of Property Rights

Real Property

Secured interests in property and contracts are recognized and enforced. Mortgages exist, and there is a recognized and reliable system of recording such securities. Uruguay's legal system protects the acquisition and disposition of all property, including land, buildings, and mortgages.

Execution of guarantees has traditionally been a slow process. A Bankruptcy Law passed in 2008 (No. 18,387) seeks to expedite such executions, encourages arrangements with creditors before a firm goes definitively bankrupt, and provides the possibility of selling the firm as a single productive unit.

As of 2005 the GOU considers occupations of workplaces as a licit extension of workers' right to strike thus enabling workers to lawfully occupy workplaces. This point of view was generally opposed by employers. In November 2008, the International Labor Organization (ILO) released a report suggesting that Uruguay revise its legislation on this issue. (See Labor Section for further information)

Intellectual Property Rights

Uruguay is a member of the World Intellectual Property Organization (WIPO), and a party to the Bern and Universal Copyright Conventions, as well as the Paris Convention for the Protection of Industrial Property.

The Office of the U.S. Trade Representative (USTR) removed Uruguay from its Special 301 Watch List in 2006 due to progress in enforcing Intellectual Property Rights (IPR), especially with respect to copyright enforcement.

In 2003, Uruguay passed new TRIPS-compliant copyright legislation, which represented a significant improvement over the 1937 law.

Patents are protected by Law 17,164 of September 2, 1999. Invention patents have a twenty-year term of protection from the date of filing. Patents for utility models and industrial designs have a ten-year term of protection from the filing date and may be extended for an additional five. The law defines compensation as "adequate remuneration" to be paid to the patent-holder. Some industry groups criticize the slowness of the patent-granting process as well as the lack of data protection.

The GOU approved a trademark law on September 25, 1998, upgrading trademark legislation to TRIPS standards. Registered trademarks last ten years and the license can be renewed as many times as desired. The law provides prison penalties of six months to three years for violators, and requires proof of a legal commercial connection to register a foreign

trademark. While enforcement of trademark rights has improved in recent years, local citizens have sometimes managed to register trademarks without owners' prior consent.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: James T. Crow CrowJT@state.gov

Local lawyers list: <http://uruguay.usembassy.gov/uscitizenservices-notary-attorneys.html>

8. Transparency of the Regulatory System

Uruguay has policies and laws to foster competition. The two pillars are [Law 18,159](#) and [Decree 404](#), both from 1997. There is also a special division at the [Ministry of Economy](#) to promote and defend competition.

Two regulatory agencies for telecommunications (URSEC) and water and energy (URSEA) were created in 2001 to, among others, regulate and control their respective markets. In 2010 the Executive Branch transferred URSEC's policy-design capacity to the National Telecommunications Directorate (DINATEL), leaving it only with control attributes.

The Audiovisual Communications Law, known locally as the media bill, that as of April 2014 is before Parliament, includes provisions on market caps for cable TV providers that could limit competition.

Proposed laws and regulations are only occasionally published in draft form for public comment. It is common that parliamentary commissions receive stakeholders while discussing a bill.

Transparent and streamlined procedures regulate foreign investment. However, long delays and repeated appeals can significantly delay the process to award international and public tenders.

Article 10 of the Uruguay-U.S. BIT mandates both countries to publish promptly or make public any law, regulation, procedure or adjudicatory decision related to investments. Article 11 sets transparency procedures that govern the accord.

9. Efficient Capital Markets and Portfolio Investment

The banking system is generally sound and has good capital, solvency and liquidity ratios. Profitability, in the context of low international interest rates and low demand for credit, is a problem. With over 40 percent of the market, government-owned Banco de la Republica is the nation's largest bank. Long-term banking credit has traditionally been difficult to obtain. Foreign investors can access credit on the same market terms as nationals.

A [capital markets law](#) (No. 18,627) was passed in December 2009 to try to jumpstart the local capital market. The 138-article law is a substantial revision of the 1996 law that was only 53 articles long. The law sought to increase market transparency, competitiveness and efficiency and protect investors' interests while complying with the guidelines of the International Organization of Securities Commission (IOSCO) and the IMF.

Despite the 2009 law, Uruguay's capital market remains underdeveloped and highly concentrated in sovereign debt, making it hard to finance through the local equity market.

There are two stock exchanges; a purely electronic one (BEVSA), which encompasses the vast majority of transactions, and one that combines floor and electronic operations (Bolsa de Valores de Montevideo, BVM). Trading in shares and commercial paper is virtually non-existent (only six firms are registered with BVM to issue shares), severely limiting market liquidity. Pension funds handle funds that are ten-fold the local market's capitalization.

As a result of such underdevelopment, Uruguay regularly receives "active" investments oriented to establishing new firms or gaining control over existent ones, but lacks "passive" investments from investment funds. There is no effective regulatory system to encourage and facilitate portfolio investment.

Bearer shares, which were widely used, were banned in 2012 as part of the process of complying with OECD requirements (see Bilateral Investment Agreements section).

Private firms do not use "cross shareholding" or "stable shareholder" arrangements to restrict foreign investment, nor do they restrict participation in or control of domestic enterprises. There are eight investment funds authorized but most are not operating. Risk rating firms first came to Uruguay in 1998.

10. Competition from State-Owned Enterprises

Uruguay is not a party to the WTO's Plurilateral Agreement on Government Procurement.

Uruguay maintains state monopolies in a number of areas where direct foreign equity participation is prohibited by law. These include the importing and refining of oil, workers' compensation insurance, and landline telephony. Water sanitation, which had been opened to private-sector participation in the mid-1990s, returned to government control in 2004 after a referendum determined that water is a natural resource to be administered exclusively by the State.

Some previously government-run monopolies have been opened to private-sector competition. Cellular and international long distance services, insurance, and media services are open to local and foreign competitors. Despite competition, state-owned companies have the largest market share in all the aforementioned sectors. Private-sector generation of power is allowed and is increasing, especially in renewable energies, but the state-owned power company UTE holds a monopoly on wheeling rights.

State-run monopolies sometimes contract with foreign-owned companies to provide specific services over a period of time under Build-Operate-Transfer (BOT) systems. Road construction and maintenance, and the construction and operation of both Montevideo's port container terminal and the international airport, are examples of BOT projects. The state-owned oil company ANCAP has also established associations with foreign partners for off-shore and on-shore exploration.

In an attempt to address its major infrastructure shortage while preserving fiscal balance in July 2011 Uruguay passed a Public-Private-Partnerships (PPP) law (No. 18,786). The law was passed in Parliament by consensus and regulated in January 2012 by Decree 07/12. The law formalizes the procedures, responsibilities, and obligations from the State and private investors.

The law allows various kinds of contracts that enable private sector companies to design, build, finance, operate and maintain certain infrastructures, including brownfield projects.

With some exceptions (such as medical services in hospitals or educational services in schools) PPPs can also be applied to social infrastructure. The return for the private sector company may come in the form of user payments, government payments or a combination of both. The procurement process is clear in the law and requires fair and open competition. Interested PPP bidders must demonstrate the background and financial strength asked for in the terms of reference of the PPP procurement process.

The PPP law was launched with high hopes that it would attract private sector's participation in major infrastructure projects such as highway and railway construction and operation, waste disposal, and energy. However, as of April 2014, the only PPP project underway is a prison for about 2,000 inmates.

Most state-owned firms are defined as autonomous but in practice coordinate certain issues, mainly tariffs, with their respective ministries and the Executive Branch. State-owned firms are required by law to publish an annual report, and their balances are audited by independent firms.

11. Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) is relatively new in Uruguay, but many companies do abide by the principles of CSR as a matter of course. Many multinational companies find it advantageous to stake out a CSR strategy and have made significant contributions in promoting safety awareness, better regulation, a positive work environment and sustainable environmental practices. Consumers do pay attention to the CSR image of companies, especially as it relates to a firm's work with local charity or community causes. U.S. companies have proven to be leaders in promoting a greater awareness of and appreciation for CSR in Uruguay.

12. Political Violence

There have been no recent cases of political violence.

Uruguay is a stable democracy in which respect for the rule of law is the norm and the majority of the population is committed to non-violence.

The Economist's 2012 Democracy Index ranked Uruguay as the most democratic country in Latin America and the Caribbean (LAC), and one of only two "full democracies" in the region (together with Costa Rica). A 2011 Latinobarometro study pointed to Uruguay as the country that is the second most supportive of democracy and the most opposed to authoritarian governments among 18 Latin American countries.

13. Corruption

Uruguay signed and ratified the UN's Anticorruption Convention. It is not a member of the, OECD and therefore not party to the OECD's Convention on Combating Bribery.

Uruguay has laws to prevent bribery and other corrupt practices. A law against corruption in the public sector was approved in 1998, and acceptance of a bribe is a felony under Uruguay's penal code. Some high level Uruguayan officials, from the Executive, Parliament and the Judiciary, have been prosecuted for corruption in recent years.

Overall, U.S. firms have not identified corruption as an obstacle to investment.

Uruguay was ranked as the least corrupt country in the Latin America and the Caribbean region in the 2013 edition of Transparency International's Corruption Perception Index. Uruguay shared the 19th position globally (among 177 countries) with the United States.

Laws [17,835](#) and [18,494](#) (passed in 2004 and 2009) and Decree 226/10 establish a strong framework against money laundering and terrorism finance and include corruption as a preceding crime. Money laundering is penalized with sentences of up to ten years (and also applies to Uruguayans living abroad).

The Transparency and Public Ethics Committee (<http://www.jutep.gub.uy/>) is responsible for combating corruption. There is no major local "watchdog" organization.

14. Bilateral Investment Agreements

Uruguay and the United States do not have double taxation or tax information agreements in place.

In November 2005, Uruguay and the United States signed a Bilateral Investment Treaty (BIT) to promote and protect reciprocal investments that entered into force on November 1, 2006. The full text of the agreement is available at www.ustr.gov/Trade_Agreements/BIT/Section_Index.html.

The BIT grants national and most-favored-nation treatments to investments and investors sourced in each country. The agreement also includes detailed provisions on compensation for expropriation, and a precise procedure for settling bilateral disputes. The annexes include sector-specific measures that are not covered by the agreement and specific sectors or activities which governments may restrict further.

Uruguay also has BITs with Argentina, Brazil and Paraguay (a general agreement signed in MERCOSUR in 1994) and 32 other countries (Armenia, Australia, Belgium, Canada, Chile, China, Czech Republic, El Salvador, Finland, France, Germany, Hungary, India, Israel, Italy, Luxembourg, Malaysia, Mexico, Portugal, The Netherlands, Panama, Peru, Poland, Portugal, Romania, South Korea, Spain, Sweden, Switzerland, United Kingdom, Venezuela and Vietnam).

Bilateral Taxation Treaties

In 2009, the GOU reacted to its inclusion by the OECD in a grey list of jurisdictions that had not "committed to implement the internationally agreed tax standard" and has since endorsed OECD standards on transparency and exchange of information.

Since 2009, the GOU has upgraded several regulations to meet such standards, including signing several tax information exchange agreements (TIEAs), relaxing bank secrecy provisions, and modifying its bearer shares system. In October 2012, the OECD acknowledged the GOU's progress and allowed Uruguay to move on to the second phase of the review process, consisting of a survey of the practical implementation of the standards.

According to the OECD's [Global Forum on Transparency and Exchange of Information for Tax Purposes](#), as of April 2014 Uruguay had signed 27 TIEAs, 13 of which include double taxation provisions. Twelve of the TIEAs still lack parliamentary ratification.

Uruguay has TIEAs with double taxation provisions with Ecuador, Finland, Germany, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, South Korea, Spain and Switzerland (agreements with Belgium and Romania are pending parliamentary ratification).

Uruguay also has TIEAs in effect –without double taxation provisions– with Argentina, France and Iceland. TIEAs with nine other countries are pending parliamentary ratification (Australia, Brazil, Canada, Denmark, Faroe Islands, Greenland, The Netherlands, Norway, Sweden and the United Kingdom).

15. OPIC and Other Investment Insurance Programs

The GOU signed an investment insurance agreement with the Overseas Private Investment Corporation (OPIC) in December 1982. The agreement allows OPIC to insure U.S. investments against risks resulting from expropriation, inconvertibility, war, or other conflicts affecting public order. OPIC programs are currently available in Uruguay.

16. Labor

The 2013-2014 edition of the World Economic Forum's Global Competitiveness Report identified restrictive labor regulations as the most problematic issue for doing business locally. Uruguay got the lowest rating, globally, in the flexibility of wage determination and pay/productivity categories. It also ranked in the lowest decile globally regarding cooperation between labor and employers and its hiring and firing practices.

Salary Councils –consisting of a three party board including representatives from unions, employers, and the government– are responsible for setting the wage increases for individual sectors that apply to firms. If unions and employers fail to reach an agreement to determine the wage increase to be applied for sectors, the government makes the final decision. Labor costs have been increasing over time.

Social security payments increase employers' basic wage costs by about 30 percent. Private sector employers can dismiss workers as long as the firing is not deemed discriminatory or motivated by anti-union reasons. The employer must pay the worker one month for each year of work, with a cap of six months.

Despite its very high literacy rate, Uruguay endures longstanding problems in its educational system (including a high dropout rate in high school and poor performance in the OECD's Program for International Student Assessment, PISA) that could reduce the number of qualified workers available over the mid-term.

Some foreign investors have also reported concerns about the productivity level of Uruguay's workforce. Productivity is usually not included in the negotiations that take place in the salary councils. Given the strong economic growth, very low current unemployment (that limits future growth based on labor accumulation) and inflationary pressures, the GOU is concerned about fostering productivity and intends to include productivity measures in upcoming wage negotiations.

Milestone legislation and developments since 2005:

- In 2005, soon after taking office, the Frente Amplio coalition rescinded a 1966 decree that enabled employers to request police action to evict occupying workers. Occupations surged in 2005 and 2006 (from an annual rate of 15-20 per year prior to

2005 to 36 in 2006) and later stabilized. In some occasions tens of firms from the same activity were simultaneously occupied during conflicts. Occupation of the plant by workers is frequently an early measure in labor conflicts.

- On December 2, 2010 the GOU passed a decree providing expedited procedures for evicting occupants of public-sector workplaces. The PIT-CNT (Uruguay's largest labor union federation) initially assessed the measure as unconstitutional. The business community thought the decree was as a positive step forward, but criticized that the GOU for using a different standard to deal with workers' occupations in the private and public sectors.
- Several labor laws strengthening unions and labor rights have been passed since 2005. The law on the "Promotion and Protection of Labor Unions," passed in 2006, renders any discriminatory action affecting the employment of unionized workers illegal. Among other measures, the law provides for the immediate reinstatement of the employee if any infringement of the law is proven. Business chambers argued the bill slanted labor relations heavily in favor of unions. Unionization tripled from about 110,000 in 2003 to over 350,000 in 2013 (about 21 percent of employed workers), and is particularly high in the public sector and some private sectors, such as construction and banks.
- Law 18,099 (passed in 2007) on outsourcing was adamantly opposed by the business community, as it made employers responsible for possible labor infringements on employees by third-party firms that were contracted by the employers. The GOU later passed Law 18,251 (also in 2007) to mollify some of the private sector's concerns.
- A law on Collective Bargaining (No. 18,566) was passed in September 2009, which among other things established a bargaining system structured at three levels: national scope; branch of activity or productive chain; and bipartite collective bargaining at the company level. The law was opposed by the two most representative local business chambers and the International Organization of Employers, which filed a case against the government before the International Labor Organization's Freedom of Association Committee in February 2009.
- Law 19.196, passed in March 2014, provides penal sanctions ranging from three months to two years imprisonment on those employers or their representatives who fail to adopt labor safety standards and thus generate a grave and concrete danger to the life or physical integrity of workers.

Uruguay has ratified numerous International Labor Organization (ILO) conventions that protect worker rights, and generally adheres to their provisions. The Uruguayan constitution guarantees workers the right to organize and strike, and union members are protected by law against dismissal for union activities. Sympathy strikes are legal. In labor trials, the Judiciary tends to rule in favor of the worker, as s/he is considered to be the weaker party. Labor unions are nominally independent from the government but in practice have a close affinity with the ruling Frente Amplio party.

Although investment is rising, there is an ongoing discussion about the impact of the labor situation on productivity and whether labor conflicts scare foreign investors.

17. Foreign Trade Zones/Free Ports

Thirteen free trade zones (FTZs) are located throughout the country. Most FTZs host a wide variety of tenants performing various services (e.g., financial, software, call centers, warehousing and logistics). One FTZ was created exclusively for the development of pharmaceuticals, and two for the production of paper pulp. Since MERCOSUR regulations treat products manufactured in most member states' FTZs (with the exception of Tierra del Fuego and Manaus located in Argentina and Brazil) as extra-territorial –and hence charge them the common external tariff upon entering any member country– industrial production in local FTZs is destined to non-MERCOSUR countries.

Goods, services, products, and raw materials of foreign and Uruguayan origin may be brought into the FTZs, held, processed, and re-exported without payment of Uruguayan customs duties or import taxes. Firms operating in FTZs are also exempted from national taxes. Government monopolies are not honored within FTZs. Local and foreign-owned industries alike enjoy several advantages in an FTZ, including exemption from all domestic taxes. Additionally, the employer does not pay social security taxes for non-Uruguayan employees who have waived coverage under the Uruguayan social security system. However, Uruguayans must comprise at least 75 percent of a company's labor force to qualify for FTZ tenancy. Goods of Uruguayan origin entering into FTZs are treated as Uruguayan exports for tax and other legal purposes.

Key regulations of free zones:

- The operation of free trade zones (FTZs) is regulated by Law 15,921 (from 1987) and the Ministry of Finance's Free Trade Zone Directorate.
- Decree 344/010 passed in November 2010 introduced some changes in the free zone regime in order to discourage the establishment of shell or "paper" corporations in free zones for tax evasion purposes. The Decree requires companies to submit a business plan and limits the term of the authorization to ten years, which is renewable upon GOU review.
- Article 309 of Law 18,996 (passed in November 2012) regulates the kind of activities that FTZ users can perform outside the FTZs. For instance, the law prevents them from performing commercial activities of substantial nature (e.g. selling, exhibiting or delivering) related to goods destined to Uruguay's regular (i.e. non-free zone) territory. The law also requires users to request a GOU permit to perform non-substantive activities outside FTZs.
- As of April 2014 there is a bill before Parliament that would introduce further changes to the FTZ regime.

Law 17,547 passed in August 2002 allows for the establishment of Industrial Parks. Several decrees signed since 2007 have made Industrial Parks more attractive and since then a number, some of which are sector-specific, have been created. Advantages include fiscal exemptions and tax benefits. Industrial Parks can be established by the private sector or the national or local governments.

Uruguay has other special import regimes in place, including Temporary Admission, Private Customs Deposits and Free Ports. The Temporary Admission regime allows manufacturers to import duty-free the raw materials, supplies, parts and intermediate products they will use to manufacture products that will later be exported. The system requires a government

authorization and that final products be exported within a period of 18 months. Firms do not have to be located in a specific location to benefit from Temporary Admission.

The Free Port and Bonded Warehouses are special areas where goods that are kept within the premises are exempted from all import-related duties and tariffs. While in the premises, merchandise may be labeled, fractioned and re-packaged. The two differences between the Free Ports and the Bonded Warehouses regimes are that goods can stay for an unlimited amount of time in Free Ports (Bonded Warehouses restrict the stay to one year), and processes done in Free Ports cannot modify the nature of the good (industrialization is allowed in Bonded Warehouses)

The GOU has been increasingly promoting Uruguay as a regional world-class logistics and distribution center. In December 2010 it created the National Logistics Institute (INALOG by its Spanish acronym), a public-private sector institution that seeks to coordinate efforts towards establishing Uruguay as the leading MERCOSUR distribution hub. Follow [this link](#) to a report by Uruguay's Investment Promotion Agency on the Uruguay's role and advantages as a logistics hub.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data					
Gross Domestic Product (GDP) (Millions U.S. Dollars)	(2013)	55.75	(2012)	49.92	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (BEA; IMF; Eurostat; UNCTAD, Other)
U.S. FDI in Uruguay (Millions U.S. Dollars, stock positions)	(2012)	894	(2012)	1,435	<u>(BEA)</u>

Uruguay's FDI in the United States (Millions U.S. Dollars, stock positions)		N/A	(2012)	399	(BEA)
Total inbound stock of FDI as % Uruguay's GDP	(2012)	35%			

* <http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx>

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment (2011)			Outward Direct Investment		
Total Inward	15,190	100%			
Argentina	3,762	25%			
Brazil	1,099	7%			
Spain	991	7%			
United States	759	5%			
Netherlands	651	4%			
"0" reflects amounts rounded to +/- USD 500,000.					

TABLE 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total (2012)			Equity Securities			Total Debt Securities		
World	4,754	100%	World	949	100%	World	3,805	100%

United States	1,563	33%	United States	264	28%	United States	1,299	34%
Brazil	264	6%	Spain	217	23%	Cuba	190	5%
Spain	225	5%	Luxembourg	99	10%	Brazil	183	5%
United Kingdom	197	4%	Brazil	81	9%	Chile	180	5%
Cuba	190	4%	Mexico	54	6%	Canada	161	4%

While Foreign Direct Investment (FDI) in Uruguay has been traditionally low (even by Latin American and regional standards), it surged in the last decade with a seven-fold growth in 2001-2012. Annual inflows of FDI rose gradually from US\$332 million in 2004 (2.4 percent of GDP) to \$3.0 billion in 2012 (5.8 percent of GDP). Except for a drop in 2008, FDI has not been hit by the global economic and financial crisis. In 2005-2012, Uruguay ranked second in South America in its FDI to GDP ratio, after Chile but about two-and-a-half times that of neighboring Brazil or Argentina

The sectors that receive the greatest amount of FDI are pulp mills, construction (real estate in Punta del Este, hotels, and office buildings), agriculture (forestry, ranching, farming, and slaughterhouses), and industry (food and beverages and chemicals).

In recent years Uruguay has received unusually large-scale investments. In 2005-06 Finnish firm UPM (ex-Botnia) made Uruguay's largest-ever foreign investment with the construction of a \$1.2 billion pulp mill. In 2011-14 Finnish-Swedish-Chilean Montes del Plata invested an even larger projected sum –\$1.9 billion in plant and \$0.7 billion in land– in another pulp mill project. As of April 2014 there are ongoing discussions about a large open-pit mining project (in which an Indian/UK firm plans to invest about \$3.0 billion) and the possible construction of a deep water port along the eastern seaboard.

Four countries –Argentina, Spain, Brazil and the United States– account for about half of total FDI in 2008-12. Argentina was the largest investor with 30 percent of total FDI, followed by Brazil (7 percent), Spain (6 percent) and the United States (4 percent). Annual average U.S. investment more than tripled to \$87 million in 2007-2012 from \$23 million in 2002-2006

Uruguay's Central Bank reports that the United States and held the 4th largest stock of investment in 2012 –\$894 million (the U.S. Department of Commerce's Bureau of Economic Analysis indicates an investment stock of \$1.4 billion in 2012). U.S. investment is distributed among a wide array of sectors –mainly forestry, tourism and hotels, services (e.g. call centers or back office) and telecommunications.

About 130 U.S. firms operate in Uruguay and directly employ over 15 thousand workers. Major firms include Weyerhaeuser (forestry), Conrad Hotels (tourism and gambling), Sabre (call center), McDonald's (restaurants) and Pepsi (syrups).

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system based on the Spanish civil code

International organization participation:

CAN (associate), CD, CELAC, FAO, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, LAES, LAIA, Mercosur, MIGA, MINURSO, MINUSTAH, MONUSCO, NAM (observer), OAS, OPANAL, OPCW, PCA, UN, UNASUR, UNCTAD, UNESCO, UNIDO, Union Latina, UNISFA, UNMOGIP, UNOCI, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

No exchange controls are in force in Uruguay. All remittances to foreign countries can be carried without limitations through banks, financial institutions and authorised currency exchange houses.

Treaty and non-treaty withholding tax rates

Uruguay has signed **26 agreements (14 DTC and 12 TIEA agreements)** providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Argentina	TIEA	23 Apr 2012	7 Feb 2013	Yes	Yes	
Australia	TIEA	10 Dec 2012	not yet in force	Yes	Yes	
Belgium	DTC	23 Aug 2013	not yet in force	Unreviewed	Yes	
Brazil	TIEA	24 Oct 2012	not yet in force	Yes	Yes	
Canada	TIEA	5 Feb 2013	not yet in force	Yes	Yes	
Denmark	TIEA	14 Dec 2011	not yet in force	Yes	Yes	
Ecuador	DTC	26 May 2011	15 Nov 2012	Unreviewed	Yes	
Faroe Islands	TIEA	14 Dec 2011	not yet in force	Unreviewed	Yes	
Finland	DTC	13 Dec 2011	6 Feb 2013	Yes	Yes	
France	TIEA	28 Jan 2010	31 Dec 2010	Yes	Yes	
Germany	DTC	9 Mar 2010	1 Jan 2011	Yes	Yes	
Greenland	TIEA	14 Dec 2011	not yet in force	Unreviewed	Yes	
Hungary	DTC	25 Oct 1988	1 Jan 1994	Yes	No	
Iceland	TIEA	14 Dec 2011	14 Nov 2012	Yes	Yes	
India	DTC	8 Sep 2011	21 Jun 2013	Yes	Yes	
Korea, Republic of	DTC	29 Nov 2011	22 Jan 2013	Yes	Yes	
Liechtenstein	DTC	18 Oct 2010	3 Sep 2012	Yes	Yes	
Malta	DTC	11 Mar 2011	13 Dec 2012	Yes	Yes	
Mexico	DTC	14 Aug 2009	29 Dec 2010	Yes	Yes	
Netherlands	TIEA	24 Oct 2012	not yet in force	Yes	Yes	
Norway	TIEA	14 Dec 2011	not yet in force	Yes	Yes	
Portugal	DTC	30 Nov 2009	13 Sep 2012	Yes	Yes	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Romania	DTC	14 Sep 2012	not yet in force	Unreviewed	Yes	
Spain	DTC	10 Sep 2009	24 Apr 2011	Yes	Yes	
Sweden	TIEA	14 Dec 2011	not yet in force	Yes	Yes	
Switzerland	DTC	18 Oct 2010	28 Dec 2011	No	Yes	

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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